

**Benton Harbor Public Library
Berrien County, Michigan**

Financial Report

June 30, 2008

RENDEL ELIE

— & —

ASSOCIATES PLC

CERTIFIED PUBLIC ACCOUNTANTS

Auditing Procedures Report

Instructions and MuniCodes

=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name	Benton Harbor Public Library	County	BERRIEN	Type	LIBRARY	MuniCode	11-8-010
Opinion Date-Use Calendar	Sep 24, 2008	Audit Submitted-Use Calendar	Oct 24, 2008	Fiscal Year End Month	06	Fiscal Year	2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government In Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="811,102.00"/>
General Fund Expenditure:	<input type="text" value="868,902.00"/>
Major Fund Deficit Amount:	<input type="text" value="0.00"/>

General Fund Balance:	<input type="text" value="569,536.00"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="49,854.00"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)	Lynda	Last Name	Elie	Ten Digit License Number			1101019600
CPA Street Address	1010 Main Street	City	Saint Joseph	State	MI	Zip Code	49085
CPA Firm Name	Rendel Elie & Assoc CPAs	Unit's Street Address	1010 Main Street	Unit's City	Saint Joseph	Unit's Zip	49085

Benton Harbor Public Library

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RENDEL ELIE

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ASSOCIATES PLC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Library Board
Benton Harbor Public Library
Benton Harbor, Michigan

We have audited the accompanying basic financial statements of the Benton Harbor Public Library as of June 30, 2008 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Benton Harbor Public Library as of June 30, 2008 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Benton Harbor Public Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Benton Harbor Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Rendel Elie & Associates
RENDEL ELIE & ASSOCIATES, PLC

September 24, 2008

1010 Main Street
St. Joseph, MI 49085
(269) 983-1069
(269) 983-3606 fax

**Benton Harbor Public Library
Management's Discussion and Analysis
June 30, 2008**

Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Benton Harbor Public Library
Management's Discussion and Analysis
June 30, 2008

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 605,450	\$ 793,798
Capital assets	<u>463,412</u>	<u>445,716</u>
Total assets	<u>1,068,862</u>	<u>1,239,514</u>
Current liabilities	35,914	166,462
Long-term liabilities	<u>49,854</u>	<u>23,588</u>
Total liabilities	85,768	190,050
Net assets:		
Invested in capital assets	463,412	445,716
Unrestricted	<u>519,682</u>	<u>603,748</u>
Total net assets	<u>\$ 983,094</u>	<u>\$1,049,464</u>
Revenue:		
Property taxes	\$ 333,277	\$ 355,158
Penal fines	256,384	269,167
Contribution from municipality	143,000	143,372
Interest	26,751	39,290
Other	<u>51,690</u>	<u>42,021</u>
Total revenue	811,102	849,008
Expenses – library services	<u>877,472</u>	<u>748,338</u>
Changes in net assets	<u>\$ (66,370)</u>	<u>\$ 100,670</u>

**Benton Harbor Public Library
Management's Discussion and Analysis
June 30, 2008**

The Library as a Whole

- The Library's net assets decreased by \$66,370 this year and increased by \$100,670 the prior year.
- The Library's primary sources of revenue are from property taxes, penal fines, and a contribution from Benton Township. Property taxes represent 41% of total revenue as compared to 33% the prior year. Penal fines represent 32% of the total revenue this year as well as last year. The contribution from Benton Township represents 18% of the total revenue as compared to 17% the prior year.
- Significant expenses for the library include salaries and fringe benefits along with library materials. Salaries and fringe benefits continue to be a significant expense of the Library, representing 65% of the Library's total expenses this year and 65% the prior year. Other library expenses include building maintenance, utilities, and other expenses related to the operation of the library building.

The Library's Fund

The fund balance of the Library decreased during the current year by \$57,800 compared to an increase of \$73,744 the prior year.

Capital Assets

At the end of the fiscal year, the Library had \$1,344,410 invested in building improvements, furniture and equipment, and books and materials. The library added \$103,946 in capital assets consisting of \$15,038 of furniture and computer equipment, and \$88,908 in new collection items including new books and audio/visual materials.

**Benton Harbor Public Library
Management's Discussion and Analysis
June 30, 2008**

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The amendments were made to expense accounts.

The increase in the budgeted amounts for professional services was due to contracting with an architect for the design of a proposed library renovation.

Budget variances included repairs and maintenance exceeding the final budget by \$5,510.

Grant Receipt

The Bill and Melinda Gates Foundation has committed \$17 million in Staying Connected challenge grants to support hardware upgrades, broadband connectivity, technical support, and technology training programs to U.S. Libraries.

In January 2004, the foundation announced the first round of Staying Connected grants to 18 states, totaling more than \$5.8 million. The final round, announced in January 2005, was made to 37 states and the District of Columbia for \$10.9 million. The Library was one of 221 Michigan grant recipients.

Next Year's Trust Donation

The Library is the beneficiary of a trust. The Library is expecting to receive its interest in the trust during the 2008-2009 fiscal year. The Library's portion of the trust is estimated at \$398,000 before distribution expenses.

Contacting the Library's Management

This financial report is intended to provide a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Library.

Benton Harbor Public Library
Governmental Fund Balance Sheet / Statement of Net Assets
June 30, 2008

	General Fund Modified <u>Accrual Basis</u>	<u>Adjustments</u>	Statement of <u>Net Assets</u>
Assets			
Cash and checking	\$ 353,974	\$ -	\$ 353,974
Certificates of deposit	110,859		110,859
Taxes receivable	129,305	-	129,305
Prepaid expenses	11,312	-	11,312
Capital assets, net	-	463,412	463,412
Total assets	<u>\$ 605,450</u>	<u>\$ 463,412</u>	<u>\$ 1,068,862</u>
Liabilities			
Accounts payable	\$ 12,477	\$ -	\$ 12,477
Accrued payroll	23,437	-	23,437
Compensated absences:			
Expected to be paid after one year	-	49,854	49,854
Total liabilities	<u>35,914</u>	<u>49,854</u>	<u>85,768</u>
Fund Balance/Net Assets			
Fund balance - unreserved:			
Designated for special project	30,100	(30,100)	-
Undesignated	539,436	(539,436)	-
Fund balance	<u>569,536</u>	<u>(569,536)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 605,450</u>		
Net assets:			
Invested in capital assets, net of related debt		463,412	463,412
Unrestricted		519,682	519,682
Total net assets		<u>\$ 983,094</u>	<u>\$ 983,094</u>

Benton Harbor Public Library
Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance /
Statement of Activities
Year Ended June 30, 2008

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 333,277	\$ -	\$ 333,277
Penal fines	256,384	-	256,384
Municipality contributions	143,000	-	143,000
State aid	18,010	-	18,010
Interest and dividends	26,751	-	26,751
Contributions and donations	22,925	-	22,925
Miscellaneous	10,755	-	10,755
Total revenue	811,102	-	811,102
Expenditures:			
Salaries and fringe benefits	548,234	26,266	574,500
Library books and materials	100,646	(85,212)	15,434
Repairs and maintenance	66,510	-	66,510
Utilities	48,217	-	48,217
Professional services	45,777	-	45,777
Memberships and dues	10,324	-	10,324
Insurance and bonds	7,651	-	7,651
Miscellaneous	21,736	-	21,736
Conventions and workshops	1,073	-	1,073
Capital outlay	18,734	(18,734)	-
Depreciation	-	86,250	86,250
Total expenditures	868,902	8,570	877,472
Excess of Revenue over Expenditures /			
Change in Net Assets	(57,800)	(8,570)	(66,370)
Fund Balance/Net Assets - beginning of year	627,336	422,128	1,049,464
Fund Balance/Net Assets - end of year	<u>\$ 569,536</u>	<u>\$ 413,558</u>	<u>\$ 983,094</u>

**Benton Harbor Public Library
Notes to Financial Statements
June 30, 2008**

Summary of Significant Accounting Policies

The accounting policies of the Benton Harbor Public Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements, including notes to the financial statements.

Reporting Entity

Benton Harbor Public Library is a Class V public library. The Library serves a population of 27,586 patrons from the City of Benton Harbor and the Township of Benton.

The Library is defined as a governmental unit under criteria set forth by AICPA'S Audits of State and Local Governmental Units (ASLGU). These criteria include; a Board of Trustees consisting of representative members appointed or elected from the governmental units served and, the power to enact and enforce a tax levy.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

**Benton Harbor Public Library
Notes to Financial Statements
June 30, 2008**

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

**Benton Harbor Public Library
Notes to Financial Statements
June 30, 2008**

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within ninety days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, penal fines, and fees associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the Library receives cash.

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The Library receives an advance from the Berrien County Revolving Fund for delinquent property taxes. The County collects the delinquent property taxes on behalf of the Library and advances the delinquent real property taxes to the City of Benton Harbor.

**Benton Harbor Public Library
Notes to Financial Statements
June 30, 2008**

Summary of Significant Accounting Policies (continued)

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Library books and materials	3-10 years
Furniture and equipment	5-10 years
Improvements	10-20 years

Compensated Absences (Vacation and Sick Leave) – It is the library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation and sick leave accrues to full-time and part-time, permanent employees to specified maximums. Accumulated vacation pay is paid at the time of an employee's termination or retirement. After 15 years of employment, an employee may retire and receive 50% of their unused sick leave.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to changes. During the year ended June 30, 1990, the library board designated the principal portion of a donation of \$30,100 to be used "only for a special project as may be later designated".

Risk Management - The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for employee health, property, liability and workers' compensation.

Property Taxes – On August 8, 2000, the electors of the City of Benton Harbor approved a 2-millage ad valorem tax on the taxable property in the district, expiring December, 2011. The City of Benton Harbor collects and pays the tax revenues to the Library as collected.

**Benton Harbor Public Library
Notes to Financial Statements
June 30, 2008**

Summary of Significant Accounting Policies (continued)

Municipal Contributions – Under an agreement, dated October 11, 2006, with Benton Township, the Library receives an amount of \$143,000 per year for three years and the penal fines allocated to the Township.

Budget Information

The annual budget is prepared by the Library Director and adopted by the Library Board; the Library Board approves subsequent amendments. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (combined statement of revenue, expenditures and changes in fund balances – budget and actual – general fund types) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line item basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. A comparison of the actual results of operations of the General Fund budget, as adopted by the Library Board, is presented in these financial statements.

During the year, the Library incurred expenditures that were in excess of budget by more than \$5,000 in the following categories:

	<u>Budget</u>	<u>Actual</u>
Repairs and maintenance	\$ 61,000	\$ 66,510

Cash and Investments

State statutes authorize the Library to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investments vehicles legal for direct investment by local units of government in Michigan. The Library is in accordance with statutory authority. The Library has designated a local bank for the deposit of its funds. Its cash and cash equivalents consist of various interest bearing savings accounts, checking accounts and certificates of deposit.

**Benton Harbor Public Library
Notes to Financial Statements
June 30, 2008**

Cash and Investments (continued)

Custodial credit risk of bank deposits – Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year-end, the Library's cash was comprised of bank deposits, including checking, certificates of deposit, and cash on hand. The balance at June 30, 2008 was \$464,833. Of these funds, \$171,088 was covered by federal depository insurance.

Capital Assets

A summary of changes in capital assets:

	Beginning of year <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	End of year <u>Balance</u>
Books, films, & audio	\$ 962,038	\$ 88,908	\$ 73,999	\$ 976,947
Furniture & equipment	245,826	15,038	1,200	259,664
Building improvements	<u>107,799</u>	<u>--</u>	<u>--</u>	<u>107,799</u>
Total	1,315,663	103,946	75,199	1,344,410
Accumulated depreciation	<u>(869,947)</u>	<u>(86,250)</u>	<u>75,199</u>	<u>(880,998)</u>
Net book value	<u>\$ 445,716</u>	<u>\$ 17,696</u>	<u>\$ --</u>	<u>\$ 463,412</u>

Book Collection

The circulating library book collection, films, and audio materials are capitalized. Accessions are accounted for in the year acquired. The Library follows a policy of periodically removing books that are in poor condition, not in demand, and/or no longer current.

Contingent Liabilities

Tax revenue - The Library has received advances from the Berrien County Tax Revolving Fund for delinquent taxes assessed on real property. If those taxes prove to be uncollectible, the Library will be responsible for repayment. Taxes advanced by the county, during the fiscal year ending June 30th were \$40,087.

Unemployment taxes - The Library has elected to reimburse the Michigan Employment Security Agency for any unemployment benefits paid to former employees.

**Benton Harbor Public Library
Notes to Financial Statements
June 30, 2008**

Grant Revenue

In January 2005, the Bill and Melinda Gates Foundation announced the final round of Staying Connected challenge grants to support hardware upgrades, broadband connectivity, technical support, and technology training programs to U.S. Libraries. Grants were made to 37 states and the District of Columbia for \$10.9 million. The Library was one of the Michigan grant recipients.

Rent

The Library operates out of a building that is owned by the City of Benton Harbor.

Retirement Plan

The Library contributes to its employees Individual Retirement Accounts. For the year ended June 30, 2008, the Library contributed \$37,101 to these accounts.

Subsequent Events

The Library is the beneficiary of a trust. The Library is expecting to receive its interest in the trust during the 2008-2009 fiscal year. The Library's portion of the trust is estimated at \$398,000 before distribution expenses.

**Benton Harbor Public Library
Notes to Financial Statements
June 30, 2008**

Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$ 569,536
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Differences in the statement of net assets:

Capital assets are not financial resources, and are not reported in the funds	463,412
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Compensated absences are included as a liability	<u>(49,854)</u>
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Net Assets of General Fund – Full Accrual Basis	<u>\$ 983,094</u>
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Net Change in Fund Balances – Modified Accrual Basis	\$ (57,800)
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Differences in the statement of net assets:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	85,212
Capital outlay	18,734
Depreciation	<u>(86,250)</u>

Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	<u>(26,266)</u>
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Change in Net Assets of General Fund – Full Accrual Basis	<u>\$ (66,370)</u>
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Benton Harbor Public Library
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Over (Under)
Revenues:				
Property taxes	\$ 325,000	\$ 325,000	\$ 333,277	\$ 8,277
Penal fines	260,000	260,000	256,384	(3,616)
Municipality contributions	143,000	143,000	143,000	-
State aid	10,000	10,000	18,010	8,010
Interest and dividends	30,000	30,000	26,751	(3,249)
Contributions and donations	15,000	15,000	22,925	7,925
Miscellaneous	15,000	15,000	10,755	(4,245)
Total revenue	798,000	798,000	811,102	13,102
Expenditures:				
Salaries and fringe benefits	544,000	544,000	548,234	4,234
Library books and materials	117,800	117,800	100,646	(17,154)
Repairs and maintenance	92,000	61,000	66,510	5,510
Utilities	58,600	58,600	48,217	(10,383)
Professional services	20,000	51,000	45,777	(5,223)
Memberships and dues	10,000	10,000	10,324	324
Insurance and bonds	8,000	8,000	7,651	(349)
Miscellaneous	18,100	18,100	21,736	3,636
Conventions and workshops	4,000	4,000	1,073	(2,927)
Capital outlay	14,500	14,500	18,734	4,234
Total expenditures	887,000	887,000	868,902	(18,098)
Excess of Revenue over Expenditures / Change in Net Assets	<u>(89,000)</u>	<u>(89,000)</u>	<u>(57,800)</u>	<u>31,200</u>
Fund Balance/Net Assets - beginning of year	<u>627,336</u>	<u>627,336</u>	<u>627,336</u>	<u>-</u>
Fund Balance/Net Assets - end of year	<u>\$ 538,336</u>	<u>\$ 538,336</u>	<u>\$ 569,536</u>	<u>\$ 31,200</u>

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Audit Results Communication

September 24, 2008

Benton Harbor Public Library
213 East Wall Street
Benton Harbor, MI 49022

We completed our audit of the financial statements of the Benton Harbor Public Library for the year ended June 30, 2008 and expect to issue our report thereon dated September 24, 2008. The following comments summarize the results of our audit:

In planning and performing our audit of the financial statements of the Benton Harbor Public Library, in accordance with auditing standards generally accepted in the United State of America, we considered Benton Harbor Public Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

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Controls over Financial Reporting Process

- As part of our audit adjustments, we recorded receivables and payables. Taxes receivable were a material amount and property taxes receivable were discovered through communications with the county treasurer's office. We suggest that the tax collection amount be confirmed with the county treasurer's office to identify any taxes still due to the Library. Accounts payable should also be recorded in your accounting records.

This year, as in the past, the auditing firm has recorded audit adjustments at the time of the audit. This service is allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the Library's financial statements. However, when the auditor identifies material audit adjustments, auditing standards require that such conditions be communicated in writing as material weaknesses. Reliance on your *external* auditors cannot by definition be considered a part of the Library's *internal* controls. We would recommend that receivables and payables be recorded in your interim financial statements.

Other comments, not considered to be deficiencies in internal controls:

Budget amendments

- The budget process includes a great deal of estimating and it is not unusual for significant variances to develop throughout the year. We recommend that the board continue to monitor actual financial results to the original budgets and amend the budget as needed. The budget was not amended this year for the building maintenance - cleaning.

Computerized accounting records

- There are several features of accounting software that, if implemented and utilized, could enhance financial reporting to the Library. To prevent the likelihood of a difference between the financial reports and the accounting records, all transactions should be entered into your accounting software and the financial report feature of your software should be used to generate the reports provided to the board for review at the monthly meetings. We are available for training to assist you in implementing accounting software.

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Custodial credit risk of bank deposits

- Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. At year- end, the Library's cash was comprised of bank deposits, including checking and sweep accounts, and certificates of deposit. Of these funds, \$293,745 was not covered by federal depository insurance. The Library has begun a plan to reduce exposure to this risk.

Capitalization Policy

- The organization may want to adopt a written capitalization policy for equipment and building improvements. A written policy could establish thresholds for capitalizing items. When a new asset meets or exceeds your capitalization threshold and has a useful life exceeding one year, it should be recorded as a capital asset.

Electronic Transactions Policy

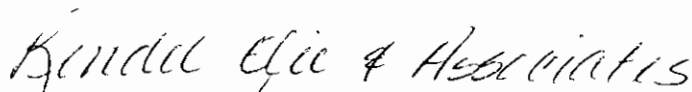
- The Library may want to adopt a written policy for electronic transactions to comply with the State of Michigan.

Credit Card Use Policy

- We noted that the Library uses a credit card for Library business and recommend that the Library adopt a credit card policy to comply with the State of Michigan and specifically outline the guidelines for its use.

We wish to express our appreciation for the friendliness and cooperation extended to us during this audit.

Sincerely,



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September 24, 2008

Benton Harbor Public Library
213 East Wall Street
Benton Harbor, MI 49022

We have audited the financial statements of the Benton Harbor Public Library for the year ended June 30, 2008, and have issued our report thereon dated September 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 29, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 29, 2008.

Significant Audit Findings

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Benton Harbor Public Library are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). We proposed numerous adjusting journal entries, which in our judgment, had a material effect on the Benton Harbor Public Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2008.

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Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Issues

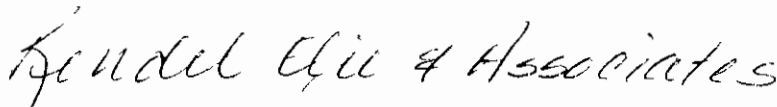
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Benton Harbor Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



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